



ECONOMIC COMMENTARY

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2025: A YEAR OF SHIFTING TRENDS AND POLICY DISRUPTIONS

Recent weeks have seen significant developments in the global economy and financial markets. These developments are intensified by possible significant geopolitical and policy shifts, including Donald Trump's second term as the President of the United States (US). With a history of protectionist policies, this scenario could significantly influence global trade patterns and market dynamics.

Monetary policy and bond markets

In the US, the Federal Reserve's cautious stance continues to dominate financial headlines. With persistent inflation, policymakers have signalled potential policy change, pushing the 10-year Treasury yield to multi-year highs. This has created ripples across equity markets, particularly in interest rate-sensitive sectors.

Across the Atlantic, the United Kingdom has faced its own challenges, with bond yields rising as concerns grow over fiscal sustainability and political stability. These developments highlight the importance of staying nimble in fixed-income investments, focussing on high-quality assets and managing duration risks.

Trade growth amid uncertainty

Global trade has been projected to reach record levels, driven by a 7% increase in services trade. However, this optimistic outlook could face headwinds if protectionist policies resurface, particularly in the US. Trump's return to power might bring back tariffs and trade restrictions, disrupting global supply chains and slowing trade growth. Key sectors (such as technology, manufacturing, and consumer goods) reliant on international trade could experience cost increases and reduced market access. In response, many nations and businesses are already diversifying their trade partnerships, seeking opportunities in regions such as Asia, Africa, and Latin America.

Emerging markets and regional diversification

Emerging markets have remained a mixed bag. India continues to outperform with robust growth, while countries like Turkey and Argentina face inflationary pressures and currency instability. A rise in protectionist policies could accelerate a shift towards intra-regional trade agreements, with nations in the Global South stepping into roles traditionally dominated by advanced economies. For investors, this reinforces the need to selectively target markets with strong governance and long-term growth prospects, particularly in industries aligned with global megatrends like renewable energy and digital transformation.

Technology: Growth with risks

The tech sector continues to flourish. However, the rapid pace of innovation also brings its own geopolitical risks. Emerging markets, for instance, may struggle to compete in high-tech industries, owing to limited infrastructure and lower levels of skilled labour. Despite this, opportunities abound in sectors benefiting from technological integration, such as green energy, cybersecurity, and healthcare innovation. Investors must navigate this space carefully, balancing the long-term growth potential with elevated valuations and geopolitical complexities.

Energy markets: Challenges and shifts

Europe's energy challenges remain a critical focus as natural gas prices keep increasing. The ongoing conflict in Ukraine is further exacerbating concerns about energy security. Simultaneously, the region's push towards renewable energy continues to accelerate, creating investment opportunities in technologies like wind, solar, and hydrogen. While geopolitical tensions and potential US policy shifts could affect global energy markets, the transition to a greener economy presents a long-term growth trajectory for investors focussed on sustainability.

Conclusion: Prepare for an uncertain future

The global economy is increasingly shaped by complex interactions between economic trends, policy decisions, and geopolitical factors. The potential for protectionist policies to resurface adds yet another layer of uncertainty. That being said, these challenges present opportunities for informed investors who can adapt to the shifting landscape.

By maintaining a diversified portfolio, staying attuned to global trends, and embracing innovation, investors can navigate uncertainties while positioning themselves for long-term success in an ever-changing economic world.

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